

## DAY TO DAY PAMPHLETS

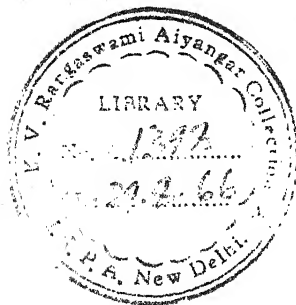
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# ECONOMIC POLICIES AND PEACE

Merttens Lecture, 1936

SIR ARTHUR SALTER, K.C.B.



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## PREFATORY NOTE

THE *Merttens Peace Lectures* were founded in 1926 by Frederick Merttens of Rugby. They are delivered annually. The following lectures have been previously published :

*Justice Among Nations.* By HORACE G. ALEXANDER, M.A.

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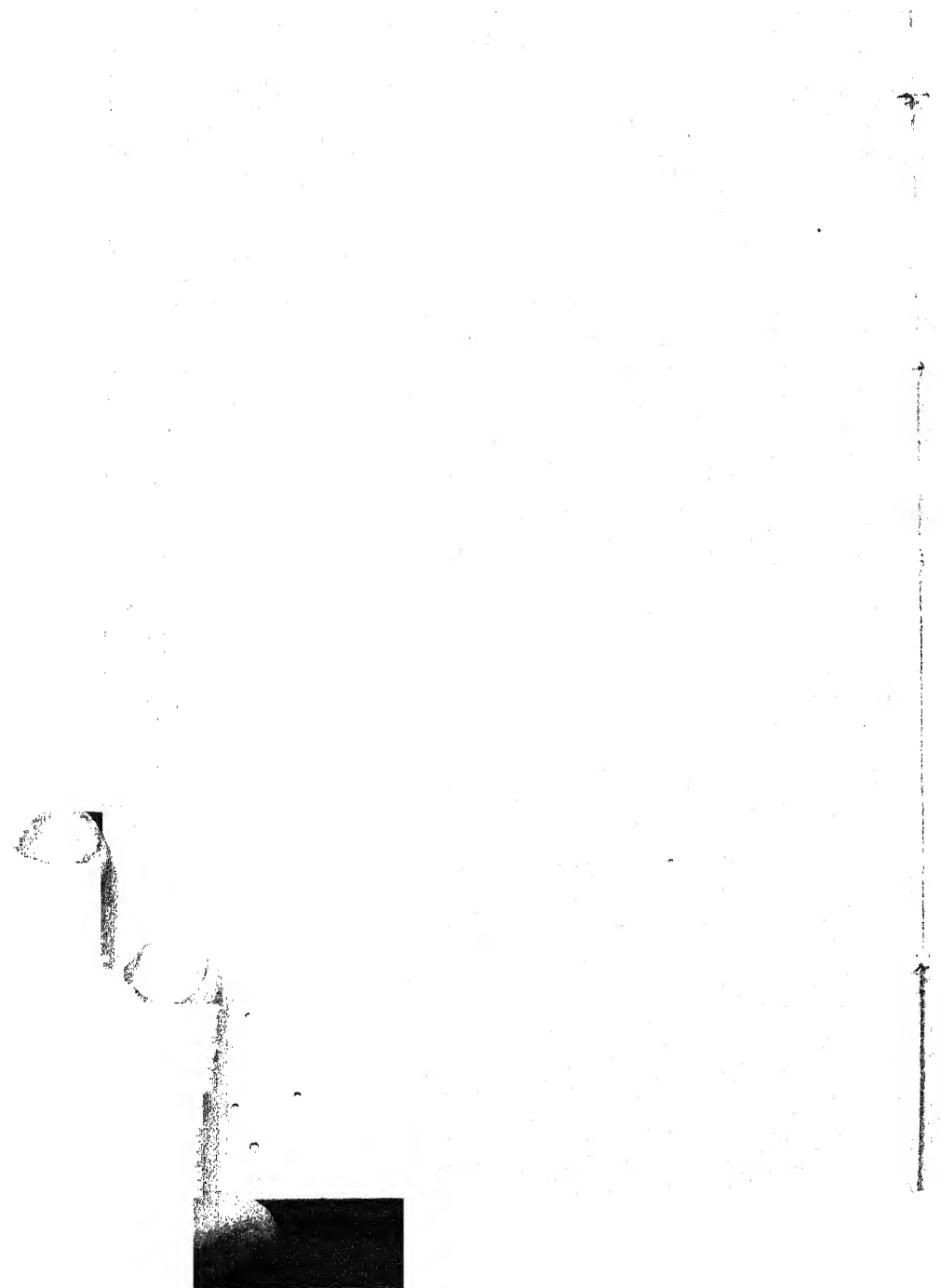
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It is a curious paradox of nomenclature that what is now termed "economics" should have ceased to be called "political economy" in just the period when the older name would be more appropriate. The world in which the more elderly among us learnt the elements of political economy was still in the main a world of *laissez-faire*. Governments established a framework of law and institutions within which competing and changing prices affected all the adjustments of economic life, and individual enterprise determined the form of economic development. There was little detailed interference and still less active participation in economic enterprise by governments or their officials. All that is now changed. The area of State activity is enormously enlarged. In every country, though with differences of form and of extent, changing governmental action determines the conditions under which men make their living, and the government is often an active participant in their enterprise. Thus, while in the last century the economy of the world was non-political, it is now in essence a political economy.

#### THE SCOPE OF THE SUBJECT

This difference, among its other consequences, determines the form that must be assumed by any discussion of my present subject, that of the relation between economic policies and peace. It means that wide as the subject would be in any case, it must be enlarged. For it is useless under present conditions to try to understand politics without economics, or economics without politics. Indeed, the core of the problem is the very subtle relation and interaction of economic and political factors in causing the conditions from which wars originate. It is an intricate

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Gordian Knot to unravel, and it is not open to us merely to cut it by some simple formula or superficially plausible diagnosis. There are, indeed, many who would improve upon the Thucydidean aphorism that "the occasions of war are trivial, but the causes are profound," by saying that we find the occasions of war in politics, but the causes in economics; that the political passions and excitements and provocations which immediately precede a conflict are merely the product of deep-rooted divergences of economic interest. But the truth is not so simple as that.

I am obliged, therefore, to extend my subject beyond the range at first suggested by its title, so as to cover all the main causes of war. But if I enlarge it I shall also restrict it. I shall make no attempt to cover the whole field of economic policy. I shall confine myself to considering the way in which economic factors in general combine with political grievances and resentments to affect international relations, and then to discussing certain types of economic policy which are especially provocative and dangerous. Moreover, I am now only concerned with the kind of analysis which may help us in the immediate problem which dominates all others in the world; how we can best act to avert the next great war which is threatening us. If that war comes, I do not know, I cannot guess—I had almost added, I scarcely care—what happens afterwards. At least what would then happen, however interesting as a subject of speculation, does not affect our present problem of action. What we do now may determine whether another great war comes or not in the next few years. None of us can feel any confidence that, if it does come, we shall ourselves have any part in what is done afterwards; and we need all the attention and energy we can command to help us in forming the policies that may determine the fate of the world in the near future.

With this restriction of purpose, the question becomes very different from the interminably debated discussion

of the causes of war in general. Our range of vision will be narrower, but within it we must see more closely and in more detail. We need, for our immediate and limited objective, neither historical research, nor psychological analysis, nor philosophical doctrine, nor educational theory, beyond the point at which they help us to solve the immediately practical problem of how to avert the next war. Let me illustrate the limits which this involves.

We shall not need to delve deep into remote history. It will not greatly help us to trace the interaction of the many complex impulses and motives, so crudely forced into the two categories of the political and the economic, that led to wars in periods in which the main structure of the world's organization was profoundly different from our own. The Greeks may have attacked Troy to avenge the rape of Helen or because (though not conscious of what was driving them) the entrance to the Euxine was an important trade route. When Henry V fought for what he regarded as his personal possessions in France, the passions and loyalties associated with nationality, which have been so formidable a factor in all later history, may have already become a force which made his personal enterprise a national venture. The wars of religion created a state of society in which greater scope would be given to the new economic ambitions of the age; and it is arguable that those who fought for Protestantism were impelled, though they cannot be said to have been consciously motivated, by economic forces. It may be well that, as a background, we should have some knowledge of such periods and some ideas about them. It will, however, give us little guidance for our present problem. The period which we need to study with anxious and meticulous care is the one out of which our own system has immediately developed—above all, the last fifty years. It is from this that we are likely to learn best, not, perhaps, what are the forces which ultimately determine events in the long course of centuries, but what are those which



now matter most and, above all, can be affected by policies within the limits of practicable action.

So, too, with any psychological analysis of the springs of human action. It may be, as Mr. Aldous Huxley believes, that men have a fund of pugnacity which must find its expression somehow, and must be given outlets elsewhere if it is not to seek them in war. In politics (as in morals), it may be of the first importance to find just which kinds of repression and indulgence will prevent an ineradicable passion from becoming harmful, and which will inflame it into active danger—football, perhaps, falling one side of the line and bullfights the other, to judge from our own experience and Spain's. Perhaps, but that is a distant objective. If we are to avert the next war, what we are concerned with is not the psychology of hundreds of millions as individuals, but mass psychology and the impulses that move the men who now control the foreign policies and the armed forces of their countries. At that—for our present purpose—we must stop. We can afford no deeper analysis—for whatever the results we cannot use them in time to affect our immediate fate.

For the same reason questions of school education, vital as they are for the problems of the next generation, need not now concern us. The only changes of ideas and outlook which can affect our immediate fate are those of adults who can influence the course of present policies.

In the same way we need not pause to discuss doctrines about the ultimate causes either of wars or of the evolution of society. It may be that in the last analysis all political movements and ideas and conflicts are solely the product of economic forces and divergences of economic interest. It is often argued that the roots of war are all to be found in the capitalist system, and that recurrent conflicts are inevitable until that system is replaced by another. I do not myself subscribe to these doctrines in the absolute form in which they are usually presented. I recognize that the capitalist system has its own particular dangers,

particularly at its present stage of development, when its outlets for expansion are limited and large organized interests are able to capture the instrument of the State and irresponsibly deflect the course of public policy. But these evils are not necessarily uncontrollable. I recognize again that on the whole the countries which have gone farthest with the socialization of their economic life are more pacific in their policy than the rest. It is none the less true that a State system, whether desirable or not for other reasons, does bring certain special dangers of its own in that it necessarily involves the State itself, with its immediate control of armed forces, in the economic conflicts that under another system of government may remain the quarrels of individuals. Each system, from the point of view of peace, has its own characteristic merits and faults. In any long prospect of the future it would be necessary to weigh one against the other. But for my present limited purpose this question scarcely arises. If we believe that capitalism and war are inseparable we are not helped by that belief to decide what to do to avert the next war, but are merely reduced to despair. For, as events are trending now, a great war will certainly come much sooner than socialism or communism can hope to spread, either peacefully or after some form of civil strife, throughout the world. But if even those who consider that wars cannot be permanently eradicated while capitalism remains will nevertheless admit—as surely they must—that something must be attempted now, while capitalist systems remain, to diminish the risks of an imminent war, we need not, for our present purpose, discuss the wider issues. We can concentrate our attention on a realistic examination of the actual conditions that now confront us.

## CAUSES OF THE LAST GREAT WAR

For an enquiry with this limited purpose, what equipment do we need? Assuming a background of some

general knowledge of history, can we turn at once to an analysis of current events and forces or those of the post-war years? I suggest we require more than this. While, as I have said, it is not necessary to delve into remote history, we should, to understand the present, study deeply, and reflect carefully upon, the history of Europe of at least the last fifty years—say, from the period of Bismarck's greatest successes. If I were asked to recommend the three English books of the kind which would best fit the enquirer for the problem I am now discussing, I should name Grey's *Twenty-five Years*; Spender's *Fifty Years in Europe* (or, if a smaller scale is desired, the foreign chapters in his recent *Great Britain, 1887-1936*); and Lowes Dickinson's *International Anarchy*. The first of these is an account of a principal participant in the diplomacy which preceded the war. Its supreme value consists in the fact that, in writing of each question as it confronted him, he has been able to exclude, in a very exceptional degree, any colouring of his account by later experience or reflections. We are able to see exactly what were the motives, the criteria of conduct and policy, which determined decision in the mind of a statesman of that period—and, what is at least as important, what he took for granted, what were the implicit assumptions of his thoughts which he, and all with whom he dealt, took for granted as beyond question. In Mr. Spender's book we have, on a smaller scale and from a less personal angle, the account of one of the most dispassionate and most equally poised minds of our age. In Mr. Lowes Dickinson's book we have the same events recounted by one who, with great penetration, is attempting a diagnosis of the fundamental causes of the final catastrophe.

Let us consider what remain as the outstanding impressions after a study of the first two of these books. We see five great countries, Germany, Austria-Hungary, France, Russia and Great Britain, as the protagonists on the European, indeed, on the world, arena. Just outside

this first rank is a sixth country, Italy, not yet quite a Great Power. From the other hemisphere there is an occasional impact from the U.S.A. and half-way through the period a new country, Japan, begins to emerge as a no longer negligible factor in the calculations of the "Big Five." The rest of the world lived, for the most part, subject to the will or grace of these five. South America, indeed, was apart, under the protection of the Monroe doctrine. But Asia was subject to rule or exploitation through rival spheres of influence. Africa was partitioned. In Europe the present Poland was in fragments between three of the Great Powers, Czechoslovakia a part of two of them, the Baltic States a part of another; the Balkans, though looked on as a tinder-box which might start an unwelcome conflagration which would spread to the greater Powers, might just as well have been described as an arena in which these Powers tried out their strength. Other countries maintained a precarious independence with the help of the jealousies or, more rarely, a collective guarantee of the stronger Powers. Dominating the fate of the whole Continent, and, in large measure, the world, is a never-ending, extremely complicated, almost unintelligible "power game" of the great five. They are perpetually attempting, by methods obviously very dangerous, objectives which by comparison with the risks seem almost worthless. Indeed, as we watch them it becomes more and more clear that the main purpose in achieving any particular objective is less its intrinsic value than the demonstration it will afford of the successful country's power, the additional "prestige" it will give as a help to its next attempt. It is a dangerous game and every one of the five realises that, if it is strong enough to fight one of the others, it cannot alone fight a combination. Each of them, therefore, is engaged in a feverish search for allies, preferably so combined that it will be the strongest in its own group and the group as a whole stronger than any opposing one. It is a competition carried on feverishly,

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secretly, unscrupulously. The running is made by Napoleon III in France and by Germany under the greatest master in the art, Bismarck, whose success drives those threatened by it along the same path, till under his less skilful successors they have their chance. All are drawn into the game, Germany the leader, Great Britain the last and most reluctant. But none dare stand out. Even an invincible navy and a country and empire most of which is inaccessible except by sea does not exempt us; the Low Countries are too near; the North-West Frontier too vulnerable to a dominant land Power. All five act on certain assumptions, regarded as so certain as to be never questioned and scarcely even mentioned. Recurrent wars are regarded as inevitable, and are the legitimate and indispensable instruments of national policy. They must not be undertaken lightly and never, if it can be avoided, except when diplomacy has created a situation in which victory may be expected. The principal object in diplomacy is therefore to establish such a relation to the other principal countries (whether by joining combinations, or preventing their formation, or occupying a "balancing" attitude to them) as will enable national objectives to be obtained without war. The "prestige" of a government is the measure of the success it has achieved in this purpose and its instrument for future success. In negotiations on specific questions, success is usually desired and failure feared because of their effect upon this prestige. It follows that, in the most dangerous crises, the issues of war and peace turn more upon prestige than upon the merits of the actual dispute or the value of the tangible prize. War may therefore be risked on what seems the most trivial occasion, for everyone feels that one surrender will make the next more likely and there is no end to such a process—except a later war, under less advantageous conditions. Prestige is thus not mainly a matter of ministers', or even national, vanity, though both enter into it and may be a substantial

factor at some stages ; it is essentially the measure of a country's potential ability to enforce a national policy, whether in the defence of existing rights or the acquisition of new ones. It is the only instrument for this purpose apart from war itself. Prestige, in a word, is potential victory in war, and may give actual victory without war. War will therefore be risked to increase it or to avoid losing it. And yet nearly all the governments at nearly all times desire to avoid war. Some are more reluctant than others (and that is a handicap in negotiations as serious as the known weakness of their armaments) ; some will actually desire a war at a particular moment, but usually even then only in order to snatch victory when the moment is favourable, to prevent having to fight under less advantageous conditions later. Diplomacy thus becomes an ever more dangerous game of bluff, each country desiring to secure its objectives and increase its prestige through the fear of others that it is ready to fight for them. To watch the interchanges of the five Powers in the years before 1914 is like watching five conjurers trying to keep a number of balls in the air ; the slightest slip—or the interruption of an outsider—will bring them all down. Year after year skill averts disaster, but with every success it becomes more certain that failure must come some time—must come soon. A gunboat off Morocco—not quite ; a murder at Sarajevo—crash.

Under such conditions, the goal of victory is success itself and not the tangible prizes. The danger of war cannot be measured by considering the nature of these prizes. The "causes of war" in the ordinary sense, divergences of tangible interest, are quite secondary—almost irrelevant—at least quite remote from the actual point of danger. Now and then—in the negotiations for a sphere of influence in Persia, for example, there may be a discernible economic advantage, and a group of special interests may egg on their government. But in the worst crises, such as Sarajevo, any such element is remote. In

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some cases, hereditary hatreds and remembered grievances may play a part. But again they are a secondary factor. Great Britain moves in a few years from contemplating an alliance with Germany to forming an *entente* with France. To Germany, Russia is first a secret ally and then a potential foe. Nor are any general political sympathies of importance; a Liberal parliament shows distaste for an *entente* with the Czar, but this does not affect policy. Everything is subordinated, and necessarily subordinated, to the quest for power.

"The economic necessities," says Spender, "which in previous ages were supposed to have driven nations to war had been largely removed by modern conditions. International finance was more and more operating across national boundaries, raw material was accessible to all, doors were open to immigration, tariffs were moderate, there was free exchange of goods over a vast area. Economically and materially . . . the nations had nothing to gain by war or conquest, but this did not affect the belief of the dominant Powers that military ascendancy and acquisition of territory were marks of national greatness, and periodical trials of strength a necessary part of the historical process."

With all this in mind, I think it is impossible to dispute that the diagnosis of Mr. Lowes Dickinson was right. "International anarchy" was the fundamental cause of the last war. There was no system which did for the competing and conflicting ambitions that extend beyond national frontiers what national government did for those within them; that is, establish, and modify as need arises, a framework of law; settle disputes that arise by a judicial or arbitral process; and prevent a resort to violence in breach of the law by the use or prospect of collective force. Where human activities interact, they will sometimes conflict; where governments are associated with the conflicts they will be dangerous. If there is no other method of securing settlement except the one party's fear

of the other's armed power, each will seek that power—and the "prestige" which means the known ability to use power. This search will be competitive; and, in a world with several great Powers each will fear the others and none can be secure against a combination of the rest. This means that every dispute is essentially a trial of strength, and the most trivial may be as dangerous as one in which great interests are involved. Fear becomes the first motive in seeking the power which inspires it in others. "Prestige," being the only available instrument with which to secure national objectives without war itself, is the chief goal of diplomacy; it is essentially a function of anarchy.

The conclusion that follows is clear. No removal of either economic or political causes of war, unless some system of international government is also built up, can put an end to wars. If we succeeded beyond all reasonable hope in removing economic causes of conflict and dispute, there would still be a competitive scramble for power and prestige of the kind which led to the late war.

#### NEW FEATURES IN THE POST-WAR WORLD

As compared with 1914, however, there have been some favourable, some unfavourable, changes in the general environment within which diplomacy works. The need for an international system to replace, or mitigate, the anarchy of the pre-war world has been recognized. For twenty years an attempt has been made to establish one. It is assisted by a much more universal realization of what war means and a much more widespread acceptance of the idea that war is not a legitimate instrument of national policy. But the League of Nations is obviously not yet strong enough; it has not yet replaced, it cannot yet control, the competitive power scramble. Its fate is still uncertain, and it will mainly depend upon certain new factors in the present situation which are scarcely visible in the period before 1914. Of these economic

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conflicts and grievances are now among the most important.

The explosive forces which now threaten the peace proceed from an interaction between the psychological and the material, between the political and the economic, which we must now consider with some care.

The first thing we must do in approaching this question is to banish from our mind the delusion that two and two always make four. That is true of abstractions of thought and of concrete objects that can be weighed and measured ; but it is not true of living creatures or living forces. Combine two chemical substances, each of which has only a small explosive quality, and the result may be either a harmless amalgam or an explosive force a thousand times greater than the combined strength of each of them. So it is with political forces. The Italian invasion of Abyssinia was both an attack on the League and a menace to British Imperial interests. The one by itself would have aroused a certain League militancy ; the other by itself would have aroused a certain British Imperialist militancy. Combined the two came as nearly as no matter to zero—they were certainly weaker in ultimate result than the latter would have been alone. The converse of this is unhappily equally true and much more frequent. Take all the complex of feelings that go to make up Italian nationalist feeling—the desire for national glory, and all the rest. And then take the real economic value of Abyssinia and the cost of conquering it. By itself, the first might have flared up and flared out for want of an object in which to find concrete expression. By itself, the second, on a dispassionate calculation, would be worth little—and much less than nothing after deduction of the cost. But add the two together and each is exaggerated beyond all computation. The prospect of economic advantage makes the flame of national passion a raging and enduring fire. The tropical wastes of a

country that can never find homes for as many Italians as the increase in population every few months become an Eldorado of riches and a land of promise for all the surplus and impoverished. There is no limit to the extent to which under such conditions a trivial economic factor can be magnified till it becomes a force which may plunge continents into a war of devastation.

Now, unhappily, there are, in addition to much that still remains of the anarchy of the pre-war system, certain new and very dangerous factors, both political and economic, which are the product of recent years.

First of all there is a phenomenon in national psychology of whose importance we have only recently become fully conscious. The most dangerous mentality in a nation is that which develops at a time of transition from inferiority to one of equal or superior strength. Germany, Japan and Italy (obviously the three principal sources of danger) have all been through periods in which they were treated as in some measure inferior by those with whom they felt they should be equals, and in which, while bitterly resenting this treatment, they had to endure it through weakness. Under the impulse of this resentment (added to other equally powerful causes) they then acquired a power which now makes them more feared than they fear others. The psychological state that attends this process is most inaccurately described as an inferiority complex or as a superiority complex; it is much more dangerous than either. It combines the worst of both. It is very different from that of a country which is conscious both of unequal treatment and of comparative weakness. It is equally different from the complacent sense of superiority which, for example, made England disliked but tolerated, when, in her most fortunate period, she felt secure enough to allow her navy to police the seas invisibly without imposing differential trade conditions even in regard to British colonies. The psychology of the transition state unites the resentments of weakness to the arrogance of

strength. The result is a mood of feverish recklessness which, when combined with material grievances and a dictatorial régime, means imminent and constant danger.

The impact upon this psychology of mass unemployment and all the distresses that accompany a period of depression has been disastrous. Unhappily in Germany, Japan and Italy general economic distress has been combined, to a greater extent than anywhere else, with a sense of economic suffocation through the loss of external outlets for trade and population. These three countries are precisely those which, in relation to the extent of their industrialization and the rate of increase of their population, are poorest in national resources, at home or in colonies, of food and raw materials. The real causes of the suffocation are, of course, the new tariff and exchange restrictions resulting from the world financial crisis and the stoppage of migration to countries like the U.S.A. The possession or loss of colonies is an entirely negligible factor in causing this economic suffocation. But the unhappy coincidence that the three countries which most suffer it are just those which have few or no colonies has led them to associate the two and to exaggerate fantastically the real economic advantages of colonial possessions.

Next we must note in this connection the other factor which distinguishes the economic organization of our period from that of the post-war world. States everywhere are actively and intimately associated with economic enterprise and therefore with economic disputes. Economic quarrels are no longer the quarrels of individuals, but of governments with armed forces at their command.

Lastly, as a principal distinguishing characteristic of this period, we have the clash between democracies and dictatorships. The two great groupings of world forces are the horizontal grouping of left against right, and the vertical grouping of nations (or combined nations) against nations. The first, beyond a certain point of development,

may lead to revolution or civil war—separately, sporadically, or by a concerted movement. The second points to international war. Under certain conditions these two forces may tend to counteract each other—under others they may be so associated as to increase the explosive force of each. And by the side of these two contrasting sets of forces is the clash between the free and the totalitarian States—a division which (on the whole, perhaps happily) does not exactly coincide with either of the two others.

It must be the goal of world statesmanship to secure that these three sets of opposing forces counteract each other rather than coincide. The great arch of a bridge may be so designed that the stresses and strains of the separate blocks which constitute it—each pushing and thrusting against the other—support the whole structure by the interaction of their reciprocal pressures. Such must be our world system of government, drawing strength from the collision and counterpoise of the opposing forces.

These are generalizations. Specific instances will better show the interaction of the political and economic forces which have just been described. Let us consider, in the barest outline, what has happened during the last twenty years in Germany.

After four years in which she had shown greater military strength than that of any other single country, Germany was beaten by a superior combination. She recognized her defeat, and the immediate transfer of territory, such as Alsace-Lorraine or even the colonies, might have been accepted without any lasting resentment. But the enforced inequality in armaments and the occupation of the Rhineland and the Saar were for many years afterwards constant reminders of the country's humiliation and inferiority of status. All this created a mood of embitterment, originating in political causes and taking the form of anti-Ally, and especially anti-French, feeling. This again, however, by itself would only very slowly have

found practical expression in any form threatening real danger. It was the combination with it of the economic distress of successive classes and then of the country as a whole which made it a great force sufficient to establish a new régime destined to become a menace to Europe. Military and colonial officials deprived of their careers had both the experience and the incentive to organize; the ruin of the middle classes by inflation added both further organizers and material for them to work on. But it was only when the world depression came and the financial crisis, followed by a drastic deflation policy, which brought mass unemployment on the largest scale, that the Nazi revolution became possible. Internal trade was destroyed by deflation, external trade by the emergency protective measures of other countries; and besides the general economic distress there was also the sense of economic suffocation. All these combined with the other factors of political resentment. The new régime so originating was bound to be not only authoritarian within its own frontiers but menacingly assertive of its rights and ambitions in its foreign policy.

If we are to pick out one of these factors from the others as the one without which the revolution would certainly not have happened as and when it did, we shall probably choose "mass unemployment." However originating, and whatever the other elements in the situation, this only, perhaps, could have provided enough combustible material to cause the great conflagration. But it is misleading to isolate one of the factors in this way. We need to consider all of them, and, above all, to realize the way in which, by combination and interaction, they generated an explosive force immensely greater than the sum of their separate strengths. So only can be understood either the origin of the Nazi régime or its assertive and provocative form of nationalism.

I will take one more instance to illustrate the interaction of the political and economic. When Poland was

reconstituted, Germany had, apart from the mere loss of territory, the perpetual irritation of feeling cut off from East Prussia by the Corridor. This was bitterly resented and for long seemed the point of most acute danger in the European situation. The resentment was accompanied with a great deal of active and vocal "Pole hatred." Intermingling with this general national feeling were certain specialized economic interests, which would profit by the exclusion of Polish goods. Their best chance of securing and maintaining, necessarily at some expense to the German consumer, the economic policy they wanted was to utilize the racial feeling and to foment it. Without this relatively small economic factor the racial feeling might have gradually died down. Without the racial feeling originating from other causes the economic question would not have had political effects. It is, indeed, very interesting to note how transient and transferable racial passion originating from political causes often is if there is nothing else to keep it alive. The feeling between Germans and Poles looked very dangerous for a number of years. Then, when the ten years' agreement between the two countries was made, it suddenly became of little importance. The hatred-emotion was still there, but the Germans found satisfaction for it in venting it on the Jews and Russians, and the Poles on the Russians.

I think we shall best express the relation between economic factors and political passions by thinking of the former as combustible material and the latter as inflammable material. A spark—that is, a particular quarrel—may come from anywhere at any time. But if there is only inflammable material, it will flare up and flare out. If there is only combustible material, and nothing inflammable, the spark will disappear without damage. But combine the two and the first spark may cause a great conflagration.

Let me, at the expense of seeming fanciful, extend the simile. We must build the structure of our main peace

system of solid material. It is at present fragile and destructible. We must equip it with fire appliances—the present ones are inadequate for any serious conflagration. We must see that within it there is as little combustible material and as little inflammable material as possible—and, above all, we must keep them apart. Vigilance against casual sparks is also desirable, but that by itself can never be enough. In other words, we need to construct a system which will secure order, prevent quarrels and settle them, and at the same time we must be working continuously both to reduce and to isolate political passions and economic grievances.

Any comparison of the international situation before 1914 with that of the present day must thus emphasize one outstanding difference. Economic factors now have an altogether greater importance. It is true, as it would not have been true of 1914, to say that they play a principal, perhaps the principal, part in creating the present dangerous situation. The proof of this is simple. We had the same political difficulties and national passions in 1919 as we have now. Nevertheless the forces of peace were on the whole making steady progress against those of war. Between 1925, the year of Locarno, and 1929, the year of the ratification of the Kellogg Pact, this progress was rapid. It looked as if, in a few years, if there were no set-back, peace would be firmly established. The main cause in reversing the movement was undoubtedly the depression of 1929, intensified by the financial crisis of 1931, which spread distress throughout the world, made every country recoil into nationalism, and caused a sense of economic suffocation in the countries whose distress was greatest or was accentuated by the loss of opportunity to migrate and export. We have seen this illustrated in the history of Germany, and a consideration of either Japan or Italy would lead to much the same conclusion.

## PROSPERITY AND PEACE

At the same time it remains true, as has already been abundantly illustrated, that there is a close relation between prosperity and peace. It was the distress resulting from the economic depression and financial crisis that started the general deterioration in international relations. If our first effort must therefore be concentrated upon the elimination of economic policies of a specially provocative character, that is not in itself enough ; we need also, by concerted international action as well as domestic policy, to do everything that is possible to restore prosperity. At the stage which economic recovery has now reached, chiefly by means of the expansion of home markets, this means a renewed effort to enlarge external trade, not by competitive State assistance to national exports, but by re-establishing the conditions under which the trade of each country can expand on its own merits. The problem of how this should be done, however, is one that needs separate treatment. It is too vast to be discussed as an appendix to the present theme, which is necessarily limited to economic policies which are essentially provocative in character.

## PROVOCATIVE ECONOMIC POLICIES

We are thus in a position to see the economics of peace in their proper relation to the general peace problem. Economic appeasement is not sufficient. It is no substitute either for political appeasement or for a system of international government. Efforts must proceed simultaneously along all three lines ; success in any one will help with the others, failure in one will impede or prevent progress with the rest. All economic policy, therefore, needs to be considered from the point of view of its effect not only on prosperity but upon the general peace effort.

The World Economic Conference of 1927 passed a



loss of her colonies, and does consider that the possession of colonies gives substantial economic advantages. How, in these circumstances, should colonial economic policy be changed? We must entertain no illusions as to the good results we can hope to attain immediately by any practicable reform. What Germany asks for is the actual return of her colonies. It is a demand which obviously raises the gravest political difficulties, and it may well be questioned whether, even if these difficulties could be overcome, a cession under menace would really improve the international situation; whether it would not rather whet than sate the appetite. That, however, is a political question which falls outside the scope of my present theme. It is obviously right in any case to attempt to secure at least the kind of colonial\* economic policy which is permanently desirable in the interests of peace, and though it cannot solve may to some extent relieve the present crisis.

The main principle of such a policy can hardly be doubted. It is that which, until recently, had long been consistently adopted and applied by this country in regard to its dependent Empire; the principle of what is usually called the "open door." I shall discuss shortly certain special questions that arise in the application of this principle. Its essential character and purpose are, however, obvious.

To reserve the markets and resources of a non-self-governing colony for the benefit of the industrialists and merchants of the metropolitan country is very different, and is felt by the world to be very different, from the reservation of the domestic market. It evokes resentment and envy; it leads to extravagant ideas as to the extent of the economic consequences involved; it gives a powerful incentive to the acquisition of sea power, and with it to claims for a redistribution of colonial possessions. It is

\*Throughout this section "colonies" include only those countries whose economic policies are determined by the government of a stronger and industrially advanced State, not, of course, the Dominions.

inconsistent with both aspects of the principle of double-trusteeship, for the native inhabitants and for the world in general, which underlies the mandate system devised for the ex-German colonies. One of the greatest services which Great Britain and Holland rendered to the world in the last century is to have prepared the way for the recognition and extension of this principle; and it is surely a tragedy that, in a period when its general application would be of greater value than ever, the pioneer in the policy should have abandoned it.

The Report of the United States Tariff Commission of 1922 contains a passage which now reads like a eulogy that has become an epitaph:

"Between 1860 and 1919," it runs, "Great Britain maintained the open door in India and in the Crown Colonies generally, with either free trade or low tariffs for revenue only. In this period no British dependent colony had a general system of preferential rates. . . . During 1919-1920 there has been a considerable extension of differential tariffs . . . but since only about 5 per cent. of the total trade of the British Crown Colonies is affected by these differential duties, the open door is still the policy prevailing in the dependencies of Great Britain. . . . While the differential duties at present are so few, in so vast an empire, and one that controls the major part of the world's supplies of so many articles, the reintroduction, on however limited a scale, of the old mercantilist principle of the reservation of colonial products to the mother country must cause serious concern to the rest of the world."

Since the above passage was written the "serious concern" expressed has been justified, for at the Ottawa Conference and subsequently the policy has been greatly extended. Even now, indeed, the actual economic effect is of modest dimensions. In large colonial areas, both under British and other rule, provisions in international conventions, such as those of the Congo Basin Treaties and the mandates, preserve equality of treatment. Nevertheless the movement has gone far enough to present to

the world the prospect of a closed British colonial empire. There can be no doubt that such an empire would be a very substantial addition to the kind of economic nationalism which is most likely to lead to conflict.

It is, of course, true that, in her recent policy, Great Britain has not been starting, but following, a bad example. French colonial territories (except for those covered by the special treaties referred to) are either "assimilated," that is, included in the French customs area, or have high preferential duties. Japan has "assimilated"; Italy, Spain and Portugal have imposed preferential duties. The United States have applied the former principle to Hawaii and the latter to the Philippines. This does not, however, in any way diminish the dangers involved in the new British policy. During our greatest colonial period the safety of the dispersed and vulnerable British Empire rested upon two main foundations: first, the invincibility of the British Navy and, second, the open-door principle in colonial economic policy. It is unfortunate that, in the period in which the first of these can no longer give the same security as in the past, the second should also have been abandoned.

With this preface, let us consider a practicable course of action.

I make two recommendations: first, that, whether or not other countries take the same course, we should return to our traditional policy of equal opportunity for all countries in our colonies; and, second, that we should offer to join with others in placing our colonies under the mandate system, under conditions which include international supervision of the observance of the above principle.

Let me elaborate these proposals a little. I use advisedly the expression "equality of opportunity," not "open door." In the original and strict sense the "open door" means that no customs duties are allowed, or none that have any protective character, and not merely no discrimination. But colonies must depend in some measure

on customs for their revenue, and there is no reason why they should be deprived of all opportunity for protecting any infant industries. I would go a little further and say that, if world trade is re-established through the formation of " low tariff " groups of countries with lower tariffs *inter se* than with higher tariff countries, there is no reason why colonies should be deprived of the benefit of entering such groups, though this would involve some change in the present mandate conditions. The essential point is that the metropolitan country, as such, should have no economic preference or privilege.

I recommend then that we should in any case, as regards the British dependent empire, return to the principle which guided our policy before the war, with the minor modifications just discussed. My second recommendation goes further. It would, I think, be a great help to world peace if the international mandate system could be extended beyond the range of those colonies which were taken from Germany. I should like to see Great Britain, as the greatest imperial Power, making this proposal to the others and offering to come with them into such a system. At the same time, I think that the mandate system, as now administered at Geneva, should be definitely strengthened in several respects. In the first place, the Mandates Commission might be empowered to visit territories under mandate, or send representatives to inspect and report to it, and stronger provisions might well be inserted in order to secure that all countries should have equal rights, not only to sell their goods, but to invest money, obtain public contracts and find an outlet for the enterprise of their nationals. Such provisions would, of course, be compatible with the adoption of whatever customs policy is most in the interests of the colony itself and with suitable regulations in the interests of the colonies as regards both immigrants and contracts. But every possible effort should be made to secure that the country responsible for the administration should not

thereby draw any economic advantage for itself or its economic interests at home by means of preferential administration of any kind.

A special note is perhaps desirable with regard to colonial raw materials, in view of the importance which is attached to them by non-colonial Powers, and also the proposal for an enquiry on the subject made by Sir Samuel Hoare in September 1935. There is, in fact, very little discrimination, and none of any economic importance, in the sale of colonial raw materials. Germany, Italy and Japan can buy raw materials from the British Empire on precisely the same terms as British industrialists and merchants. Their difficulty is one of securing the necessary foreign exchange with which to finance their purchases. This difficulty, if we exclude the actual cession of the colonies, cannot well be dealt with by colonial policy ; it arises in part from the domestic financial policy of the aggrieved countries and in part from the tariff policies of other States. It can only therefore be removed either by changes in their own financial policy or by general economic and financial measures not specially related to colonies. At the same time, the fact that there is little or no actual discrimination at this moment, by means of export duties or monopoly restrictions, is no reason for leaving the legal position where it is. There is a fear, and, indeed, a danger, that at any time when there might be a shortage instead of a surplus of raw materials such discrimination might be introduced on a wide scale. It would therefore be extremely desirable to negotiate an international convention guaranteed by all the colonial Powers and providing, first, that raw materials from any non-self-governing colony should be sold on equal terms to all purchasers and, secondly, that, where there is any form of State-assisted monopoly of a raw material, control should be exercised by an authority which would include adequate representation of all the principal consumers' interests in all countries.

I come now to another sphere of State action in which again the political consequences are much more important than the economic. Every great exporting country uses its diplomatic machinery in varying degree to push the trade interests of its own nationals in competition with those of other countries. I believe that, in the way in which this actually operates, it leads to very undesirable results. It is, of course, entirely right that Ambassadors, Ministers and consuls should watch the rights of their own nationals in foreign countries and should exercise their influence to protect them from unfair and unequal treatment in the law courts or by government action. It is also a harmless development that commercial attachés or consuls should add to these duties that of preparing reports as to the economic conditions and opportunities in the countries in which they are working, though, as these reports are necessarily published and available to anyone interested in them, it may be doubted whether the expense is justified. When, however, as customarily happens, officials use the influence and prestige of their government (largely based in the last resort upon their armed forces) to press the private interests of their nationals in competition with those of other States, it is a very different matter. They all of them tend to employ methods which the others resent as unjust. One, for example, will hint that a settlement of a governmental debt will be facilitated if a new contract is made to a particular firm; another will hint at support in a political dispute. Those whose interests are prejudiced will resent the use of such influence and will ask their own government representatives to give them equally effective help, which will in turn be equally resented. There is no recognized criterion of behaviour in such matters, and the actual consequence is that, in a large proportion of the capitals of smaller countries, the representatives of great Powers are occupied more in work that causes trouble between those Powers than in establishing healthier relations with the country

to which they are accredited. No one can visit the capital of a small country without realizing that the relations between the different Ministers are frequently affected by a succession of petty disputes arising out of action of this kind, and, if we could open the official mailbags, we should probably find a stream of complaints going from the Ministers to their respective Foreign Offices, which cannot but tend to affect the relations of those Foreign Offices with each other. There must always be an additional source of friction so long as the power entrusted to public officials by the public of each country is used to push competitive private interests in this way in world markets. The development of a recognized code of behaviour, ultimately, perhaps, to be embodied in a convention, would be of great value if it could secure the limitation of the action of consular and other officers to such duties as the protection of the rights of their own nationals and assistance to them in the way of formalities, etc.

This, indeed, is one of the many illustrations of the special dangers that arise in a system which is intermediate between private enterprise and State economic systems. If individuals competed in world markets without the special aid of their governments any quarrels that occurred would be comparatively harmless, because they would be the quarrels of individuals only. If State systems replaced individual enterprise there would be responsible negotiations between one State and another. The present mixed system, under which private economic interests without responsibility can in fact use the powers of their States to push its advantage in competition with others, may sometimes involve greater dangers than either of the alternative systems.

The same principle applies as regards export bounties and subsidies. Though these substantially affect the fate of certain industries and have grown greatly in recent years, they are in actual economic result very much less than high domestic tariffs. They have, however, a

provocative character altogether out of proportion to their actual economic importance, because the power of the State is used to give a competitive advantage, not in an area in which it is recognized to have special rights, but in the general markets of the world.

The next form of State action which needs consideration, as involving political consequences out of relation to its actual economic effect, is that which has sometimes been taken in regard to loans and foreign investments. I am not now referring to the conflicts which have arisen out of the war debts or the German State indebtedness for reparation. Such conflicts arise only out of a war and not out of the ordinary transactions of peace time. Except in a war, States practically never lend money, though they borrow it not only from their own nationals, but from foreigners. Very frequently, however, Governments have intervened to collect money due from a foreign borrowing State to their nationals in a form which results in very important political consequences. Here again, I think, the desirable principle is that States should not intervene to collect money from a borrowing government under a contract which has in the first instance been made without their supervision or control. The true safeguard for such loans is the desire of the borrowing State to maintain its credit so that it will at need be able to borrow again. There is no real justification for such a series of events as led to the British occupation of Egypt; first, a loan arranged by private foreign bondholders for a dissolute monarch of a poor and autocratically governed country, without any public consideration of the terms or purposes of the loan; then a natural reluctance of the taxpayer in the borrowing country to meet the charges of a loan which had not been expended for his benefit; and then, finally, the use of the armed forces of the countries whose nationals, having made what had looked like a very profitable bargain, ask their governments' assistance at the moment when it is proving unsuccessful. State



intervention, except in the form of diplomatic representations, is now less frequent. It would be a mistake, however, to think that, even if it were completely abandoned, the problem of loans to foreign States would have reached a solution. The fact is that in many such cases not less State action by countries from whom the money comes, but action at an earlier stage, is required. In most cases in which large loans are made to small countries, political consequences are inevitably involved. In such cases it is extremely desirable that the conditions under which the loans are originally arranged should at the outset be considered in their political aspects by an appropriate public authority. In many cases it would be right that this authority should be an international one, such, for example, as that of the Finance Committee of the League, which approved the conditions of the Reconstruction Loans to Austria and Hungary and other countries in Europe. In such cases it is right that governmental influence should be used to secure the observance of the loan contract. It should, however, I suggest, be an absolute principle that, where there has been no public responsibility for the conditions under which a loan to a foreign State is contracted, there should be no subsequent public intervention to enforce the observance of its terms.

Colonial economic policy; the use of diplomatic machinery to push the competitive interests of nationals in world markets; export bounties and subsidies; and State intervention in regard to privately negotiated foreign loans are thus, in my opinion, the four fields in which a change in policy is most required in order to establish the economic foundations of peace.

In the wider sphere of general financial and economic policy, it is only possible to mention briefly certain elements of special danger. The same general principle runs throughout. It is the use of the instrument of the State to assist its nationals in external competition, with all the power that a State commands and without

the full responsibility it might feel if it were dealing as a State with other States about economic enterprise in its own control. Competitive currency depreciation for the purpose of securing an advantage for national exports is an obvious example. Happily in this case, as the action taken when the franc was devalued has shown, the danger is now so clearly realized that effective steps are likely to be made to arrest it. Tariffs and a managed currency adopted as a counterpart of a deliberate and consistent policy of constructing a particular form of domestic economy would not be in the same sense provocative. They might be wise, or unwise ; they might or might not increase national prosperity, and might adversely affect that of other countries, but they would not in themselves be an inevitable and constant source of friction and conflict. The tariff reforms that need most to be made, from the point of view of peace, are those which would secure greater stability, the cessation of devices to assist export dumping and of discrimination of a semi-political character. Tariffs in themselves are a part of the problem of increasing prosperity. It is tariffs as an instrument of competitive economic nationalism that specially concern the problem of peace. It is, of course, none the less true that a general reduction of tariffs, both by promoting general prosperity and by giving safety valves for the explosive forces engendered by economic competition, would create conditions more favourable for peace. At this point, however, the special theme of this lecture merges in the general problem of trade policy and cannot be further pursued.

### CONCLUSION

Economic policies thus occupy a place of altogether exceptional importance in the present international situation. The world of 1913 affords a very imperfect analogy, for it was free of provocative economic nationalism on anything like the scale on which we now witness it. Never-

theless the international anarchy, and the competitive struggle for power which is its inevitable consequence, was itself enough to cause the war of 1914. That anarchy still remains, only partly mitigated by the new system of the League of Nations and the new ideas on which it is founded. We have, then, to build up this system under conditions of peculiar difficulty. Among these is the particularly dangerous interaction of economic and psychological factors which I have tried to analyse and illustrate. No single line of effort, therefore, will suffice. We must try to reconstruct the League ; we must also simultaneously be removing the economic frictions which, while they continue, impede that task and would subject any League system, even if re-established, to strains that would in time prove too strong for it to resist. Wise economic policy is not a substitute for political effort, but it is an essential accompaniment to it, more lacking and more needed than in any other period of the world's history.

